EXHIBIT 17

Chaebols, the conglomerate groups responsible for South Korea's widely admired economic growth, possess unique corporate values. These, along with their distinct diversification strategies, are closely examined by the authors.

Korean Chaebols: Corporate Values and Strategies

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South Korea has been making headlines as the "Miracle on the Han River," the "Small Dragon," and the "Second Japan." Despite a lack of natural resources, South Korea has bounded into the world market and emerged as one of the world's newest, most dynamic economic powers – not to mention the world's 15th richest nation. Korea exports more than 250,000 automobiles and 200,000 personal computers to the United States annually. Over the past two decades its annual growth rate in terms of gross national product (GNP) has been 9% and exports have increased 30% – the highest increase and growth rate in the world for that time span. By achieving $70 billion annually in exports, with a surplus in ordinary balance of more than $9 billion a year, Korea is now among the world's top ten exporters. Today, Korea's per-capita income has reached $5,000 – up from a meager $82 in 1961.

It is clear that strong leadership, sound economic planning by the government, and the prodigious productivity of Korea's workers are important elements in this remarkable economic boom. As one Japanese executive said, "The Koreans are the only people who still work hard." Skilled and diligent workers have been an especially important driving force behind economic success. According to the International Labor Organization, the Korean work week averages 54.4 hours – the highest in the world. However, the real catalysts in Korea's economic success have been the efforts of the private business sector, especially those of the chaebols (Korean conglomerates or financial cliques).

The Bank of Korea reports that the total earnings of Korea's top 30 chaebols will reach $200 billion – about 95% of the nation's GNP – in the 1990s. Clearly, the state of the Korean economy reflects the success of the chaebols; as a result, these groups have piqued international interest. In this article we shall examine the corporate values and strategies unique to chaebols.

KOREAN CHAEBOLS

Korean chaebols – e.g., Hyundai, Sam-

Exhibit 1
THE 20 LARGEST CHAEBOL GROUPS IN KOREA AS OF 1988

Rank	*Group*	*Chairman*	*Year Founded*	*No. of Affiliates*
1	Samsung	Kun Hee Lee*	1938	25
2	Hyundai	Sae Yung Chung**	1950	2
3	Lucky-Goldstar	Ja Kyung Koo	1947	26
4	Daewoo	Woo Choong Kim	1967	25
5	Sunkyong	John Hyon Choy	1953	14
6	Ssangyong	Suk Won Kim	1954	13
7	Hanjin	Choong Hoon Cho	1945	12
8	Hyosung	Suk Rai Cho	1957	19
9	Korea Explosive	Seung Youn Kim	1952	20
10	Kia	Kyung Joong Min	1944	9
11	Doosan	Yong Kon Park	1952	16
12	Lotte	Kyuk Ho Shin	1967	22
13	Dongkuk Je Kang	Sang Tae Chang	1954	14
14	Kolon	Dong Chan Lee	1957	14
15	Dong A	Won Suk Choi	1945	18
16	Daerim	Jae Joon Lee	1939	11
17	Dongboo	Jun Ki Kim	1964	11
18	Kumho	Sung Yong Park	1972	6
19	Hanil Hapsum	Joong Won Kim	1964	6
20	Miwon	Dae Hong Lim	1956	16

Source: Edited from *The Daily Economist*, March 8, 1990.

* Kun Hee Lee succeeded his father, Byung Chull Lee (the founder), upon the latter's death in 1987.

** Sae Yung Chung succeeded his older brother, Ju Yang Chung, the founder of Hyundai Group who retired in 1986.

sung, and Lucky-Goldstar—emerged as major corporations during the late 1950s. The formation and growth of such conglomerates accelerated between the early 1960s (e.g., Hanjin, Korea Explosive, Hyosung, Ssangyong, and Dong-A) and the early 1970s (e.g., Daewoo, Sunkyong, Lotte, Kolon, and Doosan). The 20 largest chaebal groups are shown in Exhibit 1. Korean chaebols are often compared to "zaibatsus" (the Japanese equivalent of chaebols), which first appeared when Mitsubishi was formed in 1893. But because chaebols were formed later, they have developed and grown in quite different ways in terms of ownership, culture, and strategy.

The following observations reflect some general characteristics of Korean chaebols:

• Although they have been criticized for their "Octopus Arm" style of expansion (characterized by aggressive infringement in the operational areas of small businesses, a lack of business ethics, and a concentration of wealth in small, select groups of people), chaebols have been the backbone of Korean economic growth.

• Ownership and management are not

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separate in most Korean chaebol groups. Each is managed by a family, though the proportion of professional managers has been increasing considerably.

- Top-down decision making is common in many Korean chaebol groups.
- Many Korean chaebols adopt certain tactics, such as gaining advantageous new family ties through marriage, to secure their existence and to maintain the family's dominance in management. According to one survey, there have been 21 marriages among the family members of the top 10 chaebols.
- Because chaebols have had a relatively short history, many founders still hold top management positions. The question of succession, then, assumes a special importance because chaebols, which were formed according to the tenets of Confucianism, owe much of their success to the unique Korean family concept.
- Most Korean chaebols also owe much of their success to government support. A close relationship with the government has almost always been a prerequisite for a chaebol's survival and success.
- The expansion of most Korean chaebols has been largely based on government policy, with the primary goal of increasing total sales volume rather than profitability.
- The management practices of Korean chaebols reflect many of their unique characteristics.

The economic power of Korean chaebols is impressive. Recently, 11 chaebols were ranked in "The *Fortune* International 500" list. The ten largest have total sales of over $130 billion, or more than 80% of the country's GNP. The total exports by eight general trading companies owned by the eight largest chaebols constitute over half of all Korean exports. Among the 50 largest companies in Korea, 30 are owned by the ten largest chaebols (see Exhibit 1).

Of course, many factors have contrib-

uted to the successful development of chaebols. Highly visible assets such as financial aid from foreign sources, government support, enthusiastic management, and the obvious hard work of employees have been named by some authors. However, no one can deny that another important force behind the chaebol's success has been its unique culture, combined with its corporate identity, leadership, and strategy.

CORPORATE VALUES OF KOREAN CHAEBOLS

To the chaebols, corporate culture contributes a set of written or unwritten rules, beliefs, norms, guidelines, philosophies, or patterns to be followed by members of the organization. This concept is so strongly imbued that any member who fails to abide by it usually experiences feelings of guilt, isolation, or a general sense of failure to "keep up". Such feelings are formed by the pressure – both internal and from other organizational members – to conform to the ideal culture.

Corporate values work in mysterious ways. Ostensibly they spur job performance and satisfaction while instilling a sense of pride in belonging to a unique "corporate family". And, indeed, they are powerful motivating tools in Korea. The values of Korean firms differ from those of their American and Japanese counterparts because of Korea's Confucian social fabric. This added cultural component in their management strategies helps them humanize the business machine. Rationalism alone is insufficient to optimize management efficiency; thus corporate value/identity is a requirement. Creativity and self-development, harmony and solidarity, and sincerity and diligence are the organizational values most frequently emphasized among Korean firms. There is no great difference between excellent firms and other firms in terms of the organizational values emphasized.

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Korean firms spend enormous amounts of time and effort in securing their corporate values. For example, they stress finding out during job interviews how well newcomers will fit the company mold and adapt to the company's culture. Exhibit 2 shows the personality traits that Korean corporations, especially chaebols, look for when they interview new college graduates. After employment, Korean firms secure the employee attitude they want by means of a corporate anthem, corporate uniforms, corporate magazines, and continuous training.

The following sketches of corporate culture at some top Korean chaebols are designed to show how their organizational values and identities are formed and expressed.

Daewoo Group. To survive in the organization Daewoo employees must make themselves at least as busy as the chairman. Moreover, they are not given any specific assignments unless this is necessary. No one teaches new employees what to do; they must find out what to do and how to do it on their own. The challenge and creativity emphasized at Daewoo spring from Chairman Woo Choong Kim's belief that "with no action nothing can be accomplished."

Chairman Kim admits that he is the busiest man at Daewoo and has little time to spend with his family. Thus the same is expected of other employees, for the benefit of both the country and Daewoo, employees' surrogate family. To compensate for such sacrifice, Daewoo offers many fringe benefits—like all-expenses-paid, three-day trips for employees to celebrate their wedding anniversaries—in addition to salary and regular bonuses.

It is Daewoo's custom to pair up a new male recruit with a female employee for his on-the-job training. The high rate of marriage between employees, especially in the Trading Division, is attributable to this practice, which is known as "jjakji," or "couple." Because of Daewoo's relatively short history,

Exhibit 2
KOREAN CHAEBOLS' PERSONALITY CRITERIA FOR EMPLOYMENT

Chaebol Groups	*Newcomers' Personality*
Samsung	Positiveness, execution with determination, responsibility, self-motivation
Hyundai	Creativeness, thrift and diligence, future-oriented
Lucky-Goldstar	Harmonious relationships with others on the job, creativeness, foreign language, personal relationship
Daewoo	Aggressiveness, progressiveness, sense of duty
Ssangyong	Harmonious relationships with others on the job, personal relationship
Korea Explosive	Harmonious relationships with others on the job, sincerity, honesty, personal relationship
Hanjin	Creativeness, responsibility, effectiveness
Hyosung	Sincerity, endeavor, responsibility
Doosan	Sincerity, thrift and diligence, harmonious relationships with others on the job
Lotte	Physical and mental soundness, adaptability, motivation to achieve
Dongboo	Spiritedness, agressiveness, future-oriented
Kolon	Harmonious relationships with others on the job, personal relationship, self-motivation
Kumho	Sincerity

Source: Edited from *The Korea Times*, October 8, 1986.

there is no nepotism to hinder the flow of young energy and ambition at the corporation. Daewoo is often thought of as a paradise for young, aggressive people.

Hanjin Group. Although Korean Air Lines (KAL) is not the only member of the Hanjin Group, in many ways its corporate culture sets the standard for most of Hanjin's subsidiaries, which are largely in the transportation field. KAL's emphasis is on "servicemanship," which is so critical to their success that all employees are expected to act as civilian diplomats. Polished manners, refined language, and warm smiles are their trademarks. The KAL male must wear a dark-blue suit (no sports jacket); female employees are strictly forbidden to wear blue jeans even when they are off duty. As unofficial diplomats, they are further required to master a foreign language in order to go abroad at least once, just to provide them with an international perspective.

KAL employees look forward to competing with the best of foreign airlines. KAL workers are proud of working for the world's tenth largest airline. Creativity and progressiveness are the two other qualities that have carried the founder and chairman, Choong Hoon Cho, down the road to success. A former truck driver, he is now the "Korean Onassis." The group's prevailing attitude is that a business, especially a transportation business, soon becomes obsolete if it fails to move forward. Consequently, employees are asked to move ahead and not to look back. Patriotism and serviceship are what the employees of Hanjin, the only corporation in Korea specializing in transportation, are supposed to possess.

Hyundai Group. Although the group's name means "contemporary," the typical Hyundai man is far from contemporary. He wears either a blue or a gray soldier-like uniform and, in compliance with company rules,

keeps his hair trimmed short, over the ears. Hyundai's corporate culture was developed by the founder and former chairman, Ju Yung Chung. He wanted his employees to be aggressive, just as he was and still is. The strength of Hyundai lies in the young men who willingly follow their commander in the hope of becoming a latter-day Chung.

Another virtue stressed at Hyundai is frugality. The former chairman's frugality is legendary. Although he managed a business that recorded sales approaching $30 billion in 1989, he still lives in an unpretentious home and shuns "luxury" hobbies like golf. His attempts to implant his idea of frugality include forcing his employees to save 30% to 40% of their salaries.

Since the group's major fields of business are construction and heavy industry, both of which require an aggressive and enterprising attitude, people who lack this attitude are screened out during the hiring interview or later on. Once a male applicant is allowed to work at Hyundai, he is trained to immediately acquire the Hyundai spirit through intensive training programs which, among other things, include physical exercise designed to build a man's "Tooksim," or physical endurance. There is little question that Hyundai's success is directly attributable to its unique brand of leadership, despite some criticism that Hyundai's principle of tenacity is often too rigid to react flexibly to the complicated nature of modern times.

Lucky-Goldstar Group. Perhaps the first thing that generally comes to mind about Lucky-Goldstar is that entering it is much easier than leaving it. As the group's motto, "Inhwa Dankyul" (or "Harmony and Solidarity") implies, the group has an almost religious devotion to developing the concept of harmony for the benefit of society as well as for the group's employees. Intermarriage among the two families involved—the Koos and the Huhs—is regarded as a 40-year-long honeymoon. Indeed, the process of selecting a successor when the late chairman In Hoe Koo died without a will was accomplished without any family feuding among the five brothers and six sons. Lucky-Goldstar is an excellent showcase for the spirit of harmony.

Such an approach to harmony, which has its origin in the Confucian emphasis on relationships among people, is occasionally challenged by young employees who regard it as absurd and irrational to have a promotion system based on seniority rather than performance. Complaints are also made about the group's decision-making apparatus, which emphasizes unanimity and prudence. But there is a special awareness at Lucky-Goldstar of the dangers of overemphasizing harmony; doing so, it is reasoned, could lead to a tolerance of irresponsibility—and thus mediocrity.

Despite a gradual change in the emphasis on harmony, the corporation's philosophy of business based on humanism is unlikely to change fundamentally. The top brass and the chairman stand behind the idea that harmony made Lucky-Goldstar transform itself from a small company making cosmetic cream in the 1940s to what it is now.

Sunkyong Group. In a 1985 survey, college graduates cited Sunkyong as the most desirable company to work for—and not only because Sunkyong's starting salary for new college recruits is the highest among all Korean business groups. Many also believe that Sunkyong's unblemished image appeals to such graduates. Sunkyong's character has a certain neutral flavor; it has managed to prosper untouched by the scandals and rumors of power struggles.

When Sunkyong undertook its 12-year sponsorship of a TV quiz show for students, the longest-running program in Korea, the intent was not to score points with students but to educate the audience about the importance of education. The group's future-oriented phi-

losophy that was behind the sponsorships is also behind Sunkyong Chemical's recent development of polyester film, videotapes, and floppy disks.

Long-term planning and futuristic strategy paved the way for another success story when Sunkyong took over ownership of Yukong Ltd., an oil refinery, in 1982. Nearly all of the other Korean chaebols wanted to acquire Yukong, too—but Sunkyong won out because its chairman, Jong Hyon Choy, had first set his sights on the petrochemical industry in 1973 and had been preparing for years for a take-over opportunity.

Mr. Choy, who studied chemistry at the University of Wisconsin and economics at the University of Chicago, regards education as the most precious resource in running a business. Every Sunkyong employee undergoes an intensive training program, called the Sunkyong Management System, which stresses management techniques as well as the corporation's philosophy on education and the future.

In most cases, an organization's corporate culture—especially when it comes to organizational values and corporate identity—reflects the personal beliefs of top management (usually the founder or the chairman) and its prescriptions for employee conduct. These beliefs and prescriptions are often glorified as the most desirable virtues; eventually they become known as corporate culture. As we saw in Exhibit 2, Korean firms' organizational values or corporate identities rely excessively on abstract concepts quite contrary to those of American and even some Japanese firms. Korean corporations stress such intangibles as harmony, challenge and power, or determination, while the cultures of U.S. corporations find visual and symbolic expression in logos, slogans, and rituals. But such concrete manifestations have little meaning for Korean employees, whose cultural tradition is introspective and not necessarily explicit. The Korean people look for something beyond simple dedication to techniques that rationalize management and maximize profits.

The success stories of Japan's zaibatsus are built on their employees' strong loyalty and willingness to adopt the prevailing corporate norms and values. Korean chaebols' success can be traced to the same source—employee loyalty to the corporate family and employee self-sacrifice for company and country. No one can deny that one of the most important driving forces behind the success of Korean chaebols has been their unique corporate culture based on the social fabric of Confucianism. The oriental tradition of emphasizing human relations complements the often mechanical corporate structure whose origin is Western.

CORPORATE STRATEGIES OF KOREAN CHAEBOLS

Many companies can devise new strategies that make sense from a financial, product, or marketing point of view—yet often they cannot implement these strategies, which require assumptions, values, and ways of working that are too far out of line with the organization's traditional assumptions. Thus corporate culture seems to be worth accepting as an important part of strategic management, both in theory and in practice, for at least two reasons: (1) It has a strong impact on the success of the company and (2) it can make a significant contribution to the creation and maintenance of a strategic fit.

As previously discussed, a strong corporate culture can guide the decisions and behavior of individuals in an organization. In this respect, corporate culture is able to produce a strategic fit by providing (1) direct information about the necessary behavior in a particular situation, (2) implicit norms, and (3) a supply of cases for analogy. Corporate culture in Korean chaebols is no excep-

tion. Each chaebol's unique corporate culture and objectives, the industry involved, the market served, and the founder's management philosophy affect the process of planning, development, and implementation of business strategies. In terms of management style, for example, Korean corporations—like their Japanese counterparts—emphasize teamwork, employee participation, minimal levels of hierarchy, consensus decision making, and the corporation-as-family philosophy. However, they implement these ideas in much more flexible ways than do their Japanese counterparts. They also run their businesses with unique goals and objectives.

To operate successfully, a corporation should have recourse to many different kinds of strategies—certainly strategies involving products, marketing, production, R&D, personnel, finance, purchasing, and diversification. Korean corporations generally take approaches similar to those of Japanese or U.S. firms in most strategic decisions—diversification excepted.

In Korea, diversification or investment decisions concerning important industries are made by the Korean government, and this was particularly true during the earlier stages of economic development (before the early 1970s). Thus private corporations have followed the government's directions or arrangements without demur in order to be included in the targeted growth industries. It is clear that the Korean government's leadership in economic development policy and the close relationship between government and business are responsible for Korea's phenomenal economic growth. However, this early "traffic control" by the government gave the chaebols a good excuse for their later "Octopus Arm" type of expansion.

Now that we have reviewed the Korean chaebols' corporate culture and corporate values, it is important to note that most Korean chaebol corporate strategies, including diversification strategies, were developed in accordance with their predefined corporate values.

Diversification

The product and the market are a firm's two most important strategic elements. To maintain continuous growth, a firm needs to increase its market share, introduce new products, penetrate new markets, implement vertical integration, and/or implement unrelated diversification. Diversification strategy can be defined as "entering into a new product/market which is usually unrelated to the firm's existing product/market to expand the firm's business opportunity." Usually, a new product/market requires a great deal of such corporate resources as new production facilities and technology, a new marketing system, new or additional personnel, and additional financial investment. Thus the firm experiences enormous loss if the diversification strategy fails to produce expected results. However, it is clear that this strategy is very attractive for fast growth.

An industrial corporation that decides to diversify its product line is making a strategic decision, the consequences of which may alter the firm's fundamental nature and may involve a substantial redeployment of resources and redirection of human energy as well. Diversification, however, is neither a goal nor a plan. After deciding on the total amount of diversification that is appropriate, a firm must choose the types of business to enter and then decide on the degree to which it will (1) build them on the basis of its existing strengths and competencies or (2) develop entirely new ones.

Typically there are three basic reasons for a firm to diversify:

1. Entrepreneurial diversification. When there is a gap between the firm's goals and its actual performance, it diversifies the prod-

uct/market to make up the gap that exists.

2. Surplus-resource-driven diversification. A firm diversifies the product/market to find new opportunities when business opportunities in the current industry are limited even though the firm has surplus resources.

3. Problem-driven diversification. A firm is forced to diversify its product/market when it encounters unexpected changes, especially such unfavorable ones as the evolution of strong, new competitors; government rules and regulations; and a scarcity of raw materials in its business environment. This may be the most risky diversification strategy.

In *Strategy, Structure, and Economic Performance*, Richard Rumelt categorized diversification according to five classes based on specialization ratio (SR), or the proportion of a firm's revenues that can be attributed to its largest single business in a given year; related ratio (RR), or the proportion of a firm's revenues attributable to its largest group of related businesses; and vertical ratio (VR), or the proportion of the firm's revenues that arise from all by-products, intermediate products, and end products of a vertically integrated sequence of processing activities. The five classes are:

1. Single business. In this category are firms that are basically committed to a single business. Among nonvertically integrated firms (VR 0.7), single-business companies are those with specialization ratios of 0.95 or more. Among vertically integrated firms (VR 0.7), those that have an end-product business that contributes 95% or more of total revenues are also classified as single business.

2. Dominant business. Firms that have diversified to some extent but still obtain the preponderance of their revenues from a single business fall into this category. Among nonvertically integrated firms, those with specialization ratios of greater than or equal to 0.7, but less than 0.95, are dominant-business firms. Among vertically integrated firms, those that do not qualify as a single-business firm fall into the dominant category.

3. Dominant unrelated. This category belongs to nonvertical dominant business firms in which the preponderance of the diversified activities are unrelated to the dominant business.

4. Related business. This category is reserved for nonvertically integrated firms that have primarily accomplished diversification by relating new activities to old so that the related ratio is 0.7 or more; they also have specialization ratios of less than 0.7.

5. Unrelated business. This is the category for nonvertical firms that have diversified chiefly without regard to relationships between new business and current activities. Such firms are defined by a related ratio of less than 0.7.

Exhibit 3 analyzes the diversification strategies of 108 large Korean business groups according to Rumelt's classification scheme. As the exhibit shows, "unrelated business" is the most typical diversification strategy among the top 20 chaebols. But for business groups ranked 21 through 80, the more popular diversification strategies are "dominant unrelated" and "related business." "Single business" and "dominant unrelated" diversification strategies are the choices of low-ranked business groups (those ranked 81 through 108). Overall, the "dominant unrelated" strategy was the top choice in 1984 for diversification among all 108. It was followed by "related business," "unrelated business," "single business," and "dominant business."

Growth and Diversification Strategies

A brief review of the growth strategies of Korean chaebols will shed light on their diversification strategies. Here is a summary of the corporate strategies of several top Korean chaebols.

Daewoo Group. Daewoo Silup, which

Exhibit 3

SUMMARY OF DIVERSIFICATION STRATEGY OF TOP 108 KOREAN BUSINESS GROUPS

*Rank** *1 = tops*	*Single Business*	*Dominant Business*	*Dominant Unrelated*	*Related Business*	*Unrelated Business*
1–10			1	1	8
11–20		2	2	1	5
21–50		2	9	12	7
51–80	4	5	10	8	3
81–108	8	2	11	4	3
Total	12	11	33	26	26

* Rankings are determined by total sales volume.

Source: Edited from "Growth Strategy and Management Structure of Korean Firms," Korea Chamber of Commerce & Industry, Seoul, Korea, 1987, p. 85.

was established in 1967 with capital of about $5,000, became one of the top five chaebols in only two decades. As of 1988, Daewoo had more than $15 billion in annual total sales with about 100,000 employees. Daewoo's rapid growth can be attributed to strategies and structures that stem from the founder's management philosophy—creativity, progressiveness, and the Daewoo emphasis on sacrifice. The group has a dual organization structure.

The backbone managerial structure at Daewoo is based on executives' linkage through a common high school or university. Mutual ownership among affiliates, rather than family, is Daewoo's unique ownership structure.

During the inauguration and development stage (1967-1975), Daewoo expanded its business by emphasizing exports—especially textile products. The strategy was greatly rewarded by the government's export-drive policy. Later in the stage, Daewoo attempted to grow into other industries such as leather, machinery, security, and construction (rather than textiles) by taking over some insolvent enterprises. Making firms profitable again has become a Daewoo trademark.

During the transition and growth period (1976–1981), Daewoo jumped into heavy industries such as overseas construction, shipbuilding, machinery, and automobiles by establishing new firms or, again, taking over insolvent enterprises. Its growth during this period was lightning-fast, even though its take-over strategy was often criticized as "enterprise hunting." To reform its image, Daewoo declared a new beginning of the group in 1982 in order to effectively handle oil shortages and Korea's turbulent political climate.

Since then, Daewoo has enjoyed a second period of rapid growth as the result of the following major strategies:

1. To strengthen competitiveness by adopting advanced technologies in existing heavy-industry business and then to jump into new areas such as banking, electronics, semiconductors, and telecommunications to make them the group's core business.

2. To encourage joint ventures in order to better handle foreign firms' unwillingness to provide technology transfer.

3. To concentrate on industries that have high value-added ratios.

It is too early to tell whether Daewoo will be successful with these strategies. However, everyone believes that it will continue to be successful as long as Chairman Woo Choong

Kim's philosophy — "We do not work for leisure but for satisfaction" — holds sway.

Hyundai Group. The Hyundai Group is the prototype of success in the Korean business environment. Hyundai has achieved enormous success by effectively combining these strategies: resiliently adapting to environmental changes, maintaining good relationships with the government, and staying progressive. An anecdote illustrates the recklessness and persuasive powers of its former chairman, Ju Yung Chung: He supposedly received a shipbuilding order from overseas by providing only a picture of the shipyard's scheduled construction site.

Since the establishment of Hyundai Construction Company in 1947 with nothing but Chang's experience and credibility, Hyundai has become one of the top Korean chaebols; in 1988, it had more than 100,000 employees and annual sales of over $27 billion. For some time after its founding, Hyundai concentrated exclusively on construction-related business; later it began to diversify. The driving forces behind Hyundai's success have been employee loyalty to the company and Chairman Chung's ability to instinctively foresee the future.

During the 1970s, Hyundai became the top chaebol in Korea as a result of the Middle East construction boom — a position clinched by its successful bid for the Jubail Industrial Harbor Complex in Saudi Arabia in 1976. With its accumulated wealth and the government's policy of encouraging heavy industry, Hyundai began to diversify into such nonconstruction businesses as shipbuilding, automobiles, and trade. After the political turbulence during 1979 and 1980 and a recession in the construction and shipbuilding business, Hyundai entered the semiconductor and computer industries. Although the results of these diversification strategies have been nothing to boast about, they enabled Hyundai to accumulate experience and acquire enormous latent power. Moreover, the unbelievable success of Pony automobiles in Canada and Excel automobiles in the United States appear to be leading Hyundai to a promising future.

Kia Motors Corporation. Kia Motors is the core company of the Kia Group. Ever since the company was founded in 1944, Kia has spared no effort to develop the domestic automobile industry. The company, which started in bicycles, went on to concentrate on cargo trucks, utility vans, special vehicles, and military vehicles for the domestic market. In 1987 it started to produce passenger cars. The company penetrated the U. S. market for the first time in 1947 through Ford dealerships with the "Festiva." Unlike other large chaebols, Kia has concentrated on a "dominant-related business," automobiles in this case, since its establishment.

In 1982, the Kia group almost went bankrupt. Hence the owner decided to give up his ownership and, for the sake of survival, delegated management of the group to nonfamily members. The professional managers surmounted the crisis successfully, and the incident became known as the "Korean Chrysler Story." Now most of the group's CEOs are professional managers, and all the Kia employees believe they can climb to the top if only they work hard enough.

Like other companies in the automobile industry, Kia has put heavy emphasis on R&D — some 5% of Kia's sales revenue is reinvested. The company intends to penetrate more foreign markets while maintaining a stable level of domestic market share to better handle fierce competition with front-runners Hyundai and Daewoo. A comment from the CEO reflects this move: "Kia owes its success to the support of its customers and the affiliated businesses that have pursued domestic growth with us. Now, with 40 years of accumulated experience and technology, Kia is reaching out to the world."

Korea Explosive Group. When reports

appeared that the Korea Explosive Group (KEG) would be taking over the Jung-A Group, which was built around a leisure business and retail chain, and also would be establishing a professional baseball team and joining the profitable instant-noodle market, more than a few cynical eyebrows were raised. To many, KEG's business expansion went against the current, especially since other business groups headed by experienced tycoons were consolidating to improve efficiency, competitiveness, and financial structure by selling unrelated and unprofitable subsidiaries. The KEG, however, is headed by a young, less experienced, second-generation tycoon.

Mr. Seung Yun Kim became chairman of KEG when his father died in 1981. In the 1970s, when expansion was the norm among businessmen, KEG was the exception. Under the leadership of the late chairman, KEG concentrated its business in trading, refining, and explosives. The winds of change, which altered other business groups beyond recognition, simply did not affect the conservatism of the late chairman. However, soon after assuming the chairmanship of KEG, the young Kim began acquiring and diversifying. The government also played a part in KEG's new expansion.

Adhering to Confucian teachings, which call for respect for elders, Kim rarely appears in public. Unlike many Korean tycoons who prefer to give orders rather than listen to divergent opinions, Kim prefers to listen to his experienced executive staff. His decision to invest $6.5 million on R&D in fine chemicals, energy, genetic engineering, and new materials development is good evidence of attentive listening in an effort to overcome KEG's main weakness—the absence of a focus on high technology.

Lucky-Goldstar Group. The Lucky-Goldstar Group was established as a small cosmetics manufacturer in 1947. Today, with 26 affiliates and 60,000 employees, it has annual sales of over $24 billion. During the group's formation stage (1947-1969), Lucky-Goldstar ventured into such new businesses as insurance, electronics, refineries, and chemical products. Most of Lucky-Goldstar's products—such as toothpaste, cosmetic soap, polyvinyl chloride (PVC) pipe, radios, telephones, washers, and television sets—were the first ones developed and produced in Korea, all in accordance with the founder's pioneering spirit to do what others don't.

After Ja Kyung Koo assumed the chairmanship, upon the late chairman's death in 1970, Lucky-Goldstar experienced a rapid growth period until 1979. During this period, the group diversified into such new areas as trading, mining, financial services, retailing, telecommunications, semiconductors, and construction. This expansion was fueled not only by the group's new strategies, but also by the Korean government's export-drive policy. Then the political turbulence in 1979 brought about changes both in the business environment and in the international trading environment—changes that forced Lucky-Goldstar to change as well. The group decided to put greater emphasis on technology- or capital-intensive businesses rather than labor-intensive ones. Thus Lucky-Goldstar has since been successful in high-tech areas including electronics, microcomputers, robots, fiber-optic cable, semiconductors, new materials, and genetic engineering.

Unlike its rivals, Lucky-Goldstar has not been dependent on foreign markets; only one-third of its turnover comes from exports. Instead, it has been one of the strongest groups based on domestic markets. Like other chaebols, it is widely diversified, but most of its products are consumer-oriented. However, the chairman sees the group's future in the internationalization of its business, and he believes that technology is the major factor that will ultimately separate the winners from

the losers. Accordingly, he is interested in attracting foreign technology, developing overseas resources, and transferring any applicable technology.

The chairman believes that good human relationships are as important as dollars and wons, and the group's corporate values reflect this belief. Whether it is management-labor relations or cooperation with foreign firms, the group is guided by the oriental philosophy of "inhwa," which literally translates as "harmony in human relations." Inhwa means mutually beneficial relationships between workers and the group's partners. Despite critics who charge that inhwa leads to tolerating idleness and/or irresponsibility, it has been a major driving force of Lucky-Goldstar's prosperity and it probably will continue to be.

THE NEW CHALLENGE

Despite the chaebols' impressive economic accomplishments, the 1990s will prove to be crucial years in determining their future success. South Korea is currently in a recession that some are calling an emergency, even a crisis.

Moreover, such experts as Koo Bo Ho, president of the Korea Development Institute, have expressed concern regarding the "speed of South Korea's slowing growth." Indeed, the present 6.6% growth rate is the lowest since 1981. Productivity, which rose 18.9% in 1987 and 13.4% in 1988, trickled to a mere 0.6% during the first ten months of 1989. Profits from the 30 largest chaebols also dropped in the first half of 1989, leaving South Korea's trade surplus at $175 million—far below its former high of $5.3 billion.

In an about-face, the same factors that influenced Korea's rapid development are now contributing to slower growth. That is, the government has decreased its heavy support in many areas as public hostility toward the monopolistic chaebols has mounted; the won has appreciated enough to make U.S. sanctions a looming possibility; and some chaebols are even being investigated for alleged tax evasion or speculation in the real estate market. In fact, most chaebols have been ordered to sell land holdings that are not essential to their business operations. However, strained management/labor relations and labor discontent in particular are mostly responsible for dulling Korea's competitive edge. Five years ago, Korean wages were below those of Mexico. But strikes and high union demands during the past two years have pushed labor costs 70% higher, for an average of $634 per month; it is estimated that work stoppages incurred $4.5 billion in losses in 1989 alone.

I-Chon Han, chief of the Planning Office at the Economic Planning Board, worries that Korea will have an even lower growth rate—5%—if labor unrest continues. A recent *Wall Street Journal* article that commented on increased conspicuous consumption by wealthy families projects an even less optimistic growth—4%. In addition, consumer prices could increase by 10%, and that increase, plus the new inflationary effects of higher wages, could eventually create the first deficit since 1986.

Experts have determined that Korea's best course of action is to continue to follow the Japanese model. Streamlining industry will be an important strategy. Many chaebols are already increasing their focus on foreign markets in such areas as conductors, robotics, and aerospace. In addition, chaebols intent on future survival will be forced to invest more heavily in quality control and research and development to acquire higher state-of-the-art technologies. The December 1989 *Korea Newsreview* notes that the government is planning to back this strategy with reduced tax rates for high-tech investments. Other companies have sought cheap labor where it

is still available and set up production in countries such as Thailand, the Philippines, Indonesia, and Mexico, thus pushing the chaebols farther into the multinational category.

Continuing success for the chaebols will depend on their determination and ability to cope with new struggles on their own as the government continues to wean them in favor of smaller enterprises. This turn of events makes chaebols, most of whom still view themselves as infants, seem uneasy. Cha Hak Koo, chairman and CEO of Goldstar's electronics unit, laments, "We are a small and weak company."

CONCLUSIONS

Korea, a country with old traditions, is also a newcomer in the competitive world of industrialized and rapidly developing countries. As one official stated, "For the first time in its 5,000-year history, Korea has the chance to become a fully industrialized nation." The successful staging of the 1988 Summer Olympics in Seoul was but one symbol of this emerging Korea. Although it is clear that strong leadership and the government's sound economic planning have been important driving forces behind Korea's remarkable economic growth, the real catalysts of the nation's economic success have been the efforts and the creativity of the Korean business community.

Although Korean chaebols have relied on their unique corporate values and strategies to help them manage and grow successfully, they may not be able to continue to count on these and other factors favoring their success. For one thing, many Korean chaebol leaders trained by the Japanese are being replaced by new generations educated mostly in the United States. For another, chaebols are too large to be managed by members of a single family. And finally, more innovative labor relations efforts will be required, along with heightened international competition and protectionism. All these factors imply that experience, aggressiveness, and intuition are no longer sufficient for success in the dynamic and complex business environment.

It is time for Korean chaebols to review their corporate goals, values, and strategies to better equip themselves to operate effectively in the new environment. As two old Korean proverbs advise, "You can rule the world only after your own house is in order," and "You can know new facts by reviewing old ones." After carefully reviewing their old set of corporate goals, values, and strategies in light of emerging environmental variables, the Korean chaebols may be able to establish a new set that will make them even more successful in this dynamic and difficult environment.

SELECTED BIBLIOGRAPHY

For a detailed discussion of Korean chaebols in terms of their corporate profiles and global competition strategies, we suggest Richard Steers, Yoo Keun Shin, and Gerardo Ungson's *The Chaebols* (Harper & Row, 1989). This book, though somewhat dated already, presents an extensive list of references. Another good source of information about Korean business organizations is Yoo Keun Shin's *Structure and Problems in Korean Enterprises* (Seoul National University Press, 1985). For the chaebols' management styles, also see Sangjin Yoo and Sang M. Lee's "Management Style and Practice of Korean Chaebols" (*California Management Review*, Summer 1987).

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